

Advance Corporation Tax Reform

Summary of Responses

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Chapter 1

Introduction

Background

1.1 Until 1999, Advance Corporation Tax (ACT) was charged on company dividend payments and could be offset against Corporation Tax (CT) liabilities.

1.2 After its abolition, companies continued to use the unrelieved surplus ACT balances they'd accrued before 1999 to reduce their CT liabilities through a system known as 'shadow ACT'. Over £6 billion of surplus ACT has been used since 1999.

1.3 At Budget 2025, the government announced that the shadow ACT rules would be removed with effect from 1 April 2026. This allowed businesses to utilise remaining surplus ACT more quickly and government to simplify the tax code, removing almost 20 pages of legislation.

Consultation

1.4 The government committed at Budget 2025 to consult on the future of the ACT regime. A call for evidence was published on 19 March 2026, which ran for 12 weeks and closed on 11 June 2026.

1.5 The call for evidence questions sought views on companies' experience of the ACT regime, the benefits of its abolition and the consequences of doing so on 1 April 2029. Repealing the ACT regime would prevent companies from using their unrelieved balances to offset CT liabilities, so abolishing ACT in 2029 would mean companies had 30 years to use up their surplus ACT, including three years without shadow ACT rules.

1.6 The call for evidence received seven written responses from businesses and a representative body. The government is grateful to those who provided written feedback. This document provides a thematic summary of the responses to each question and sets out the government response.

Chapter 2

Summary of responses

2.1 This section relates to questions 4 to 9 in the consultation, which sought views on companies' use of their unrelieved surplus ACT balances. Questions 1-3 covered designatory details about the respondents.

Question 4: With the removal of the shadow ACT rules, do you anticipate being able to use the remainder of your unrelieved surplus ACT balance and, if so, to what time frame? If not, what is the reason why?

2.2 The majority of respondents were unable to make definitive statements about their ability to use unrelieved ACT because of uncertainty about their future profits.

2.3 Some respondents indicated that they expect to be able to use their remaining surplus ACT balance before the proposed date of regime abolition, while others would not because they forecast loss-making in future years.

2.4 One respondent explained that the definition of subsidiary and groups in Statutory Instrument 2026/196 was inconsistent with definitions used elsewhere in UK legislation and that this prevented them from using their surplus ACT. This summary of responses sets out the government's response to this issue in the final section.

2.5 Of those expressing a view on the removal of shadow ACT rules, all were supportive of the change.

Question 5: Does your ACT balance provide any benefit outside of its use in reducing tax, and what is that benefit? For example, as a deferred tax asset?

2.6 Most respondents were not sufficiently confident they would be able to use their ACT balance to derive other benefits from it. Only one respondent uses the ACT balance as a deferred tax asset; another is exploring doing so now that shadow ACT rules have been abolished.

Question 6: What factors influence your ability or decision to use these balances? Are there structural issues within your group which prevent your business accessing ACT?

2.7 Most respondents cited profitability as their business' main constraint in making use of its unrelieved ACT.

2.8 Some respondents noted the impact of shadow ACT rules as the main constraint on use of balances before they were repealed.

Question 7: What impact would the removal of the ACT regime on 1 April 2029 have on your business? Is there another date that would be preferable? If so, why?

2.9 All respondents asked for removal of the ACT regime to take place after 1 April 2029, which would allow them more time to utilise remaining ACT balances. This was the case even when respondents did not foresee an opportunity to utilise balances in the short term or forecast they would use up their balances before 2029, in which case they asked for more time as contingency.

2.10 Some respondents provided a suggestion for the amount of extra time before repeal should take place. Suggestions ranged from an extra three years to an indefinite period of time.

Question 8: Are there any consequences of not taking action to change the regime that the government should consider?

2.11 Respondents did not provide any consequences of not taking action to change the regime that the government had not considered. The majority of respondents requested an extension of the repeal date, though some respondents also welcomed the objective of simplifying the tax code. One respondent reflected that that taxpayers that do not have ACT would not engage with the legislation in any event.

Question 9: How do you assess the benefits of removal of ACT? Are there any consequences of abolishing the regime that the government should consider?

2.12 Some respondents recognised that removal of ACT would contribute to reducing administrative burdens for companies with ACT and, more generally, to simplification of the Corporate Tax regime.

2.13 However, others assessed that removal of ACT would not represent a benefit because doing so would place companies with ACT balances in a more disadvantageous position than previously.

Chapter 3

Government response

Repeal date

3.1 The government believes that the Advance Corporation Tax legislation should be removed from statute. This is the case because most surplus balances have now been used, ACT itself was abolished in 1999 and removing the legislation would reduce the administrative burden on companies.

3.2 The call for evidence asked for views on an indicative repeal date of 1 April 2029. The government understands that the preference of most respondents is that the ACT regime is not removed on 1 April 2029 and accepts that the regime should be repealed at a later date.

3.3 The responses to the call for evidence reinforced the government belief that abolishing the ACT regime would provide benefits to companies whose administrative burden would be reduced with a simplified tax code.

3.4 Few respondents were clear about when they will use their balances, so it's not possible to set a date that will give all companies with ACT certainty that they can use their surplus balances.

3.5 Taking these responses into consideration, the government has decided to repeal the rules on 1 April 2031. This means taxpayers will have had 32 years to use the transitional regime, including five years without the restrictions of the shadow rules. This strikes the right balance between fairness to companies with existing balances and the benefits of ending a transitional regime and simplifying the tax code.

3.6 The government intends to introduce legislation for this date of repeal in Finance Bill 2027/28.

Subsidiary and group definitions

3.7 A company's unrelieved surplus ACT may have arisen from: ACT it paid itself; ACT surrendered to it by another company; or a combination of both. Legislation dictates that where the unrelieved surplus ACT includes surrendered amounts, those surrendered amounts must be used against the company's CT liability before any surplus ACT arising from the company's own distributions.

3.8 Surrendered surplus ACT can only be set off for periods when: the receiving company was a subsidiary of the surrendering company; or both companies were 51% subsidiaries of the same third company.

3.9 Originally, the ACT rules stated that both the parent company and its 51% subsidiary must be UK resident companies, which prevents

companies owned by non-resident companies accessing their surplus ACT. Elsewhere in the CT system, for example in group relief legislation, parent companies and 51% subsidiaries can be non-resident companies.

3.10 The government notes the anachronistic inconsistency between the way a subsidiary or group is defined in SI 2026/196 and elsewhere in UK CT legislation. The government will introduce legislation via statutory instrument for the change in definition that allows companies owned by non-residents to use their surplus ACT in due course.

HM Treasury contacts

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If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk